



## **Report and Recommendation on Data Center Consolidation**

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Chief Information Officer  
State of California  
January 10, 2005**

Pursuant to Executive Order S-13-04 (Aug. 24, 2004), which mandated consolidation of the data centers and of other Executive Branch technology, and in light of Goal 6, Objective 2 (“Establish a Department of Technology Services”) of the California State Information Technology Strategic Plan, p. 24 (November 2004) (“IT Strategic Plan”), I have prepared this report and recommendation on data center consolidation.

Consistent with the direction contained in the IT Strategic Plan, I propose establishing through the consolidation a new “Department of Technology Services” as the general-purpose technology service provider for the Executive Branch with accountability to customers for providing secure, responsive and cost-effective information and telecommunications services. Given the existing organizational structure of the Executive Branch, the Department of Technology Services should be placed within the State and Consumer Services Agency. A final decision regarding reorganization proposals formulated by the California Performance Review may require some minor adjustments to the contents of this recommendation, although I am confident that none of the CPR-related decisions by the Governor will affect the fundamentals of the recommended design and structure for the Department of Technology Services, a design and structure that tracks very closely the information technology recommendations of the CPR.

Executive Order S-13-04 required close consultations with the most directly affected agencies on consolidation planning and activities. To implement this consultation process, we established in September, 2004, an informal consolidation oversight group consisting of the Secretaries of the three agencies most directly affected by consolidation (i.e., the Business, Transportation and Housing Agency, the Health and Human Services Agency and the State and Consumer Services Agency), the Directors of the two data centers, and the State CIO. During September, October and November, that group joined with the Department of Finance to formulate a final organizational approach for the consolidation.

As the outline of the final organizational plan for consolidation emerged in November, we expanded the oversight group to include additional members. On November 30, 2004, the State CIO formally chartered a Data Center Steering Committee consisting of the State CIO as non-voting chair, a representative from the Department of Finance as vice-chair, the CIO for the State Controller's office, and the Agency Information Officers for Cabinet-level agencies and departments (the charter is reproduced below in the Appendix). This membership parallels the governance body which would oversee the consolidated data centers pursuant to the recommendation below. We are continuing to use the smaller group of 3 Secretaries as a special sub-committee to provide additional guidance and coordination on consolidation.

With the assistance of Secretary Sunne Wright McPeak and the staff of the Business, Transportation and Housing Agency, we are in the process of chartering a "Technology Advisory Peer Group," that will consist of world-class experts with significant private and public sector information technology experience. This Peer Group will regularly assess our consolidation planning and implementation activities and, based on their assessment, provide advice to the Administration on the progress of consolidation. We believe that this type of continuing external review is a critical part of our due diligence as we move forward with what is an extremely complex set of inter-related steps to rationalize the Executive Branch's management and use of its common technology infrastructure.

The immediate next step will be for the Steering Committee and the Peer Group to review and comment upon a Business Implementation Plan for establishing the new Department of Technology Services. The Steering Committee meets on January 11, 2005, to review the draft plan, and the Peer Group will review the draft plan over the course of the next two weeks or so. At that time, a final version of the draft plan will be forwarded to the entire Cabinet for consideration and approval.

Because the data centers provide critical services to all departments, it will be important for all members of the Cabinet and for the Governor's office to be comfortable with the plans for moving forward with consolidation.

## **Introduction**

The Stephen P. Teale Data Center (Teale) and the Health and Human Services Agency Data Center (HHSDC) collectively provide information technology (IT) services (such as computer and network services, Internet services, data processing and storage services, and eGovernment solutions) to a large cross-section of state entities and local jurisdictions, including Constitutional Offices, the University of California and the California State University systems. The Telecommunications Division of the Department of General Services provides voice telecommunications and data networking services and support to state agencies. The data centers and the voice telecommunications and data networking functions of DGS Telecommunications receive reimbursement from customer agencies for operational costs and must recover all costs on an annual basis.

Consolidation of the two statewide general-purpose data centers (i.e., Teale and HHSDC) was recommended in 2003 by the Legislative Analyst's Office (LAO) and embraced by the State CIO. See J. Clark Kelso, *Re-Alignment of Responsibility for the Management of the State's IT Resources and Infrastructure* (May 14, 2003) (available at [www.cio.ca.gov](http://www.cio.ca.gov)). A draft report on consolidation was completed by the Department of Finance and submitted to the Legislature in 2004 as part of the annual budget process.

The Fiscal Year 2004-2005 budget contains budget actions that assume consolidation will occur during the 2004-2005 Fiscal Year. Specifically, savings of several million dollars were assumed for the 2004-05 fiscal year and recognized through the transfer of funds from the Teale Revolving Account reserve to the General Fund and other special funds. Control Section 15.00 was added to the budget bill to give the Department of Finance the ability to realign resources during the year to implement consolidation.

The California Performance Review recommended broader strategic management of technology including consolidation of the data centers and realignment of statewide information technology acquisition, infrastructure and management (including telecommunications) for improved performance, cost effectiveness, robustness and security. See California Performance Review, *Issues and*

*Recommendations*, “SO 12 Consolidate State Data Centers, Servers and Storage,” p. 1377 (2004); California Performance Review, *Form Follows Functions*, pp. 71-72 (2004).

Further consolidation planning and activities were directed by Executive Order S-13-04 which: (1) directs consolidation to the fullest extent permitted by existing law; (2) designates the Director of Teale Data Center as the lead for consolidation and realignment of IT infrastructure, (3) sets forth the executive-level goals of consolidation and realignment; and (4) requires continuing consultation between the Secretaries of Business, Transportation and Housing and Health and Human Services, the State CIO and others on consolidation activities.

In furtherance of the above, Objective 2 of Goal 6 of the California State Information Technology Strategic Plan (November 2004) recommends establishing a “Department of Technology Services.” The strategic plan, which is intended to guide the acquisition, management and use of technology within the Executive Branch of State government for the next five years (2005-2009), reflects the collective research and judgment of literally hundreds of the State’s IT and program leaders over a two-year period. Objective 2 of Goal 6 is as follows:

The State will establish a Department of Technology Services (DTS) to provide comprehensive technology services to the Executive Branch of State government including support for enterprise applications.

The Department of Technology Services will serve the common technology needs of Executive Branch agencies and other public entities with accountability to customers for providing secure services that are responsive to client needs at a cost representing best value to the state.

Appendix B of the strategic plan (p. 29) contains a listing of some suggested components for the Department of Technology Services.

In light of all the above, and in order to best serve the technology needs of the Executive Branch, I recommend that we consolidate the Teale and Health and Human Services data centers (except for the Systems Integration Division of HHSDC), and the voice and network functions of the Telecommunications

Division of the Department of General Services, into a new “Department of Technology Services” as described below.

### **The Department of Technology Services**

We should use the opportunity created by consolidation to transform our data centers into more customer-oriented entities that provide more cost-effective services. To achieve this desirable goal, the new Department of Technology Services (“DTS”) should operate as much as possible as an independent service organization with flexibility to act decisively and responsively to the business needs of its customers.

To this end, we recommend adopting a corporate board governance model in which the governing board consists primarily of DTS’s customers. DTS would operate pursuant to its own budget and plan of operations as approved by the board – its primary customers. This governance model is necessary to achieve the most appropriate balance between providing effective, responsive and secure services and providing those services at a reasonable cost to its customers.

Given the current organizational structure of the Executive branch, I recommend the following organizational changes (which are consistent with, but not as extensive as, the recommendations of the California Performance Review):

- Establish the Department of Technology Services as the general-purpose technology service provider for the Executive Branch with accountability to customers for providing secure, responsive and cost effective information and telecommunications services consistent with the goals and objectives of the California State Information Technology Strategic Plan. The Department of Technology Services would be established as follows:
  - Consolidate the Stephen P. Teale Data Center with the data center portion of the Health and Human Services Data Center and transfer them into the Department of Technology Services (the Health and Human Services Data Center’s Systems Integration Division, which manages that agency’s large IT integration projects, would be excluded from the consolidation and would instead be transferred to the Health and Human Services Agency).

- Transfer the voice telecommunications and data networking functions of the Telecommunications Division of the Department of General Services to the Department of Technology Services in recognition of the convergence of these technologies. (This division is currently handling the CALNET II procurement, and we are committed to ensuring that the transfer has no impact whatsoever on that important procurement effort.)
- The department will be governed by a detailed plan of operations that establishes the policies, procedures and organization of the department, including, but not limited to, financial and administrative operations, performance measurements, methods of collection, procedures consistent with constitutional, statutory, and common law requirements for dispute resolution, and procedures by which the department enters into all agreements and contracts, including, but not limited to, purchases, sales, leases, licenses, memorandums of understanding, and interagency agreements.
- The departmental revolving fund will be continuously appropriated and available for encumbrance without regard to fiscal year.
- Within the Department of Technology Services, establish the Technology Services Board as the governing body for the Department of Technology Services. The Board consists of the State CIO (non-voting Chair), the Director of Finance (Vice-Chair), the Controller, and the Secretaries of the Cabinet-level agencies and departments. This membership ensures appropriate business focus, customer orientation and public oversight.
  - The Board will appoint and set the compensation for the Chief Executive Officer and up to five deputy executive officers of the Department. The flexibility in setting compensation and granting the Board the power to appoint the CEO are critical features in attracting the appropriate leadership to the Department and making that leadership directly accountable to the governing board.
  - The Board will approve the Departmental plan of operations.
  - The Board will approve the Department's annual budget and rate schedules, but only after the Department of Finance has evaluated the

proposals for sixty days and submitted its evaluation to the Board. The timing and form of the budget and rate schedule submittal will be determined by the Department of Finance.

- The Board will employ an independent certified public accountant to conduct an annual financial audit of the Department, which shall be presented to the Governor and the Legislature. The Board may conduct other such audits as are necessary or prudent to ensure proper oversight and management of the department (e.g., a periodic audit to benchmark the Department's rates).
- For purposes of administrative oversight and coordination, the Department will be established within the State and Consumer Services Agency, the agency with greatest experience with and responsibility for inter-departmental services, and for providing oversight for board-governed entities.

The overall objective of this effort is to consolidate information technology and voice and data telecommunications infrastructure and realign management authority for technology resources to improve the operational performance, cost effectiveness, reliability and security of information technology and telecommunications operations statewide. The new Department of Technology Services should be a customer-focused, technology services provider with greater flexibility and capacity than achievable by merely combining the two existing data centers.

In summary, we hope to achieve the following:

- Establish the new Department of Technology Services with the mission and capacity to be a customer-focused center of excellence for technology services, while maintaining accountability and control through a corporate governance model and routine audits.
- Promote the strategic management of Executive Branch technology by concentrating the functions and expertise of three existing technology service providers into a single, synergistic organization.

- Streamline the structure and administration of similar functional activities to reduce duplication of effort.
- Increase the depth, flexibility and robustness of the services provided to customer agencies and in turn, enhance the quality of service provided to the public, by pooling compatible physical, technical, and human resources.

### ***Department of Technology Services***

The Department of Technology Services would be established in the State and Consumer Services Agency, which shall exercise the power of general supervision over the department pursuant to Gov't Code § 12850. The functions of the Stephen P. Teale Data Center, the Health and Human Services Agency Data Center, excluding the Systems Integration Division, and voice telecommunications and data networking functions of the Telecommunications Division of the Department of General Services will be transferred to the Department of Technology Services. The Department will be under control of the Chief Executive Officer. The Technology Services Board shall appoint and fix the compensation of the Chief Executive Officer and no more than five deputy executive officers.

- 1. Management Goals:** The consolidation of these organizations will promote the strategic management of Executive Branch technology services by concentrating the functions and expertise of three major statewide technology service providers into a single, synergistic organization. (1) It will streamline the structure and administration of functional activities to reduce duplication of effort. (2) It will align the management of technology implementation, operations and maintenance into a more integrated lifecycle model. (3) It will increase the depth, flexibility and robustness of the services to customer agencies and in turn, enhance the quality of service provided to the public, by pooling the physical, technical, and human resources of the two data centers and the voice telecommunications and data networking functions of the Telecommunications Division of the DGS.
- 2. Functions:** The Department will perform all current functions of the Stephen P. Teale Data Center, the voice telecommunications and data networking functions of the Telecommunications Division of the Department of General Services, and all functions of the Health and



Human Services Agency Data Center with the exception of the transfer of the functions and administration of the System Integration Division to the Health and Human Services Agency.

- 3. Transferred Functions and Their Origins:** The consolidation would result from the transfer of all of the functions from the Stephen P. Teale Data Center, the voice telecommunications and data networking functions of the Telecommunications Division of the Department of General Services, and the Health and Human Services Agency Data Center, excluding the Systems Integration Division, to the Department of Technology Services within the State and Consumer Services Agency.

### ***Technology Services Board***

The Department of Technology Services will be governed by a Technology Services Board, which shall consist of fourteen members, as follows:

- The State CIO, who will be the chair of the Board as a non-voting member;
- The Director of Finance, who will be vice-chair of the Board;
- The State Controller;
- The Secretaries of the Department of Food and Agriculture, Business, Transportation and Housing Agency, Environmental Protection Agency, Health and Human Services Agency, Labor and Workforce Development Agency, Resources Agency, State and Consumer Services Agency, Department of Veterans Affairs, Youth and Adult Correctional Agency, Department of Homeland Security, and the Secretary for Education.

- 1. Management Goals:** Create an open, accountable corporate governance structure that will ensure the Department of Technology Services operates in the appropriate customer-focused and efficient manner.
- 2. Functions:** The Board will act as the governing board for the Department of Technology Services and will oversee all of the department's operations. The Board will oversee the affairs of the department, performing all acts necessary to exercise that power.
- 3. Transferred Functions and Their Origins:** By virtue of its power to approve the Department's budget, rates and plan of operations, the Board

will perform the oversight and management functions currently performed by the Business, Transportation and Housing Agency (with respect to the Teale Data Center), the Health and Human Services Agency (with respect to HHSDC), the Department of Finance (with respect to establishing the rates and budget for the Department of Technology Services), and the Department of General Services (with respect to voice telecommunications and data networking).

### ***Department of Technology Services Revolving Fund***


The Department of Technology Services Revolving Fund will be created within the State Treasury. Notwithstanding Government Code Section 13340, the funds will be continuously appropriated and available for encumbrance without regard to fiscal years, for payment of expenses incurred by the Department of Technology Services.

All unexpended balances of appropriations available for use in connection with any function or the administration of any function of the Stephen P. Teale Data Center, the Health and Human Services Agency Data Center, and the voice telecommunication and data networking functions of the Telecommunications Division of the Department of General Services will be transferred to the agency to which the function or administration of the function has been transferred and used only for the purposes the appropriation was originally made available.

All funds in the Stephen P. Teale Data Center Revolving Fund, the Health and Human Services Agency Data Center Revolving Fund, and the Service Revolving Fund, which are attributable to the transferred functions, will be transferred to the Department of Technology Services Revolving Fund accordingly. The Department of Finance will establish the appropriate budgeting and expenditure mechanisms for the functions transferred from the Systems Integration Division to the Health and Human Services Agency.

If there is a doubt as to the distribution of funds in the Health and Human Services Agency Data Center Revolving Fund or the Service Revolving Fund, the Department of Finance shall determine the amount and the disposition of such funds.

## Appendix

	California State Data Center Consolidation and Statewide Information Technology Realignment <b>Data Center Steering Committee</b>
<b>Project Title</b>	<b>California State Data Center Consolidation and  Statewide Information Technology Realignment</b>
<b>Charter Date</b>	November 30, 2004
<b>Executive Sponsor</b>	J. Clark Kelso, <i>State Chief Information Officer</i>
<b>Technology Services Commission</b>	<p>The State Chief Information Officer has convened a “Data Center Steering Committee” which shall consist of the following persons or their designees:</p> <ul style="list-style-type: none"> <li>▪ J. Clark Kelso, <i>State Chief Information Officer, Chairperson (non-voting);</i></li> <li>▪ Director of Finance, <i>Vice-Chairperson;</i></li> <li>▪ CIO for the State Controller;</li> <li>▪ AIO of Business, Transportation and Housing Agency;</li> <li>▪ AIO of Environmental Protection Agency;</li> <li>▪ AIO of Health and Human Services Agency;</li> <li>▪ AIO of Labor and Workforce Development Agency;</li> <li>▪ AIO of Resources Agency;</li> <li>▪ AIO of State and Consumer Services Agency;</li> <li>▪ AIO of Youth and Adult Correctional Agency;</li> <li>▪ Director of Homeland Security;</li> <li>▪ Secretary for Education;</li> <li>▪ CIO of the Department of Food and Agriculture;</li> <li>▪ CIO of the Department of Veterans Affairs.</li> </ul>
<b>Background</b>	<p>California Governor Arnold Schwarzenegger’s August 24, 2004 Executive Order S-13-04 to consolidate the Stephen P. Teale and Health and Human Services Agency data centers is a strategic first-step to literally transform the way information technology will be used throughout the Executive Branch. The Executive Order states, in part:</p> <p>A. Information technology infrastructure, which includes such things as</p>

	<p>mainframes, mid-frames, servers, personal computers and associated peripheral equipment, networks, and operating systems to support the foregoing, has been dispersed across many data centers and state agencies; and</p> <p>B. The Legislative Analyst's Office recommended in 2003, the consolidation of the Stephen P. Teale Data Center and the Health and Human Services Agency Data Center; and</p> <p>C. The State Chief Information Officer concurred in that recommendation and advocated a broader realignment of management responsibilities over the Executive Branch's information technology infrastructure and resources (see Re-alignment of Responsibility for the Management of the State's IT Resources and Infrastructure (May 14, 2003)); and</p> <p>D. The California Performance Review recommends that the Stephen P. Teale Data Center and the Health and Human Services Agency Data Center be merged into a newly-established "Department of Technology Services" with a much broader, customer-oriented mission than either of the existing data centers and that other information technology infrastructure be managed by the proposed Department of Technology Services; and</p> <p>E. Any delay in implementing consolidation and realignment will waste state funds and undermine the security, quality and risk management of our information systems.</p> <p>Executive Order S-13-04 further states, in part:</p> <p>1. The goal of data center consolidation and information technology realignment is to substantially improve the performance of the Executive Branch in managing its information technology infrastructure with particular focus on (1) receiving best value in the acquisition, management and operation of its information technology infrastructure and resources, (2) realizing with its information technology infrastructure the most appropriate levels of security, quality and risk management, and (3) ensuring that agency core competencies are reinforced and respected.</p> <p>2. The Stephen P. Teale and Health and Human Services Agency Data Centers will consolidate their operations and activities to the maximum extent permitted by existing law. The Director of the Stephen P. Teale Data Center shall lead the planning for and implementation of the consolidation of the Stephen P. Teale Data Center and the Health and Human Services Agency Data Center, excluding the System Integration Division, so that the consolidated entity becomes a customer-focused, technology services organization with greater flexibility and capacity than either data center now possesses. The consolidated entity will serve the common information technology needs of Executive</p>
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	<p>Branch entities with accountability to customers for providing secure services that are responsive to client needs at a cost representing best value to the state and consistent with the strategic objectives of the state's information technology program as determined by the State Chief Information Officer.</p> <p>3. Management authority over information technology infrastructure in the Executive Branch shall be realigned consistent with the goal set forth in paragraph 1 to the fullest extent permitted by applicable law. To the extent complete consolidation requires legislative enactment, such legislative proposals shall be a part of the plan. The Director of the Stephen P. Teale Data Center shall lead the planning for and implementation of the appropriate realignment of information technology infrastructure and resources between Executive Branch departments and the consolidated data centers.</p>
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<b>Purpose</b>	In support of the Executive Order S-13-04, and to ensure execution of its decrees, the State Chief Information Officer has convened the Data Center Steering Committee to provide oversight of data center consolidation.
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<b>Organization and Structure</b>	<p>A. The State Chief Information Officer will serve as the non-voting Chairperson of the Committee. The Director of Finance will serve as the Vice-Chairperson of the Committee.</p> <p>B. The Committee shall meet as often as it deems necessary, but not less than once each quarter. The Chairperson may call special meetings of the Committee as the Chairperson deems necessary.</p> <p>C. A quorum shall consist of seven members of the Committee. All decisions of the Committee shall be made by a majority vote of the voting membership of the full Committee.</p> <p>D. The Committee may appoint a committee of one or more of its members to perform any act within the power of the Committee itself to perform.</p>
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<b>Authority and Accountability</b>	<p>A. The Committee is the oversight body for data center consolidation and will accept for review and comment those items brought forth by the Committee Chairperson or the Director of the Stephen P. Teale Data Center (hereafter referred to as Teale Director).</p> <p>B. The Teale Director is the chief executive charged with planning, leading and implementing data center consolidation. The Teale Director is accountable to the Committee with respect to data center consolidation activities.</p>
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	C. A Consolidation Management Office (CMO) will be established within the data centers and will be assigned by the Teale Director overall project responsibility for data center consolidation. The CMO will be the project leadership, planning, directing, management, coordinating and control body for data center consolidation and realignment, and will be accountable to the Teale Director.
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<b>General Duties</b>	<p>A. The Executive Sponsor will ensure sustained executive support for successful data center consolidation and information technology realignment.</p> <p>B. The Committee Chairperson will oversee Committee activities to ensure informed, balanced and expeditious Committee decisions. The Committee Chairperson will facilitate final arbitration on issues that cannot be resolved by the Committee.</p> <p>C. The Committee will ensure the necessary decisions, resources and cross-agency collaboration for successful data center consolidation.</p> <p>D. The Teale Director will seek input from the Director of the Health and Human Services Agency Data Center in consolidation planning deliberations at the data center level, allowing input before issues or plans are brought before the Committee.</p> <p>E. The CMO will ensure leadership and project management for a coordinated, independent and objective approach to managing data center consolidation and information technology realignment, consistent with project management best practices.</p>
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<b>Charter Modifications</b>	This charter is to remain in effect until modified and approved by the Executive Sponsor.
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<b>Charter Approvals</b>			
	J. Clark Kelso, State <i>Chief Information Officer</i>		Date
			Nov. 30, 2004